Weekly Economic Review

Housing starts bounce back in January

Housing Starts

Surprisingly strong starts

Alberta housing starts surged in January to 45,800 (annualized), up from 35,100 in December. Housing starts had been declining since an earlier spike in September. As in that month, the January surge was attributable to urban multi-unit dwellings, specifically apartments. When construction begins on large apartment complexes it can have a large effect on housing starts, causing much of the volatility in the data. In this instance, the swell was localized to Edmonton, where starts jumped by 10,000 units to 24,400, the most ever for a single month (Chart 1).

The high starts in Edmonton pushed Canadian housing starts to 187,300. Excluding Edmonton, national starts were actually down in January. Starts nationally declined over the second half of 2014 and in January remained below the average over the past six months.

Manufacturing Sales

Gasoline sales fall again

Manufacturing sales declined for the second month in a row, falling 0.8% in December to $6.4 billion, but remained 3.9% higher than December 2013. Petroleum and coal sales, down 9.4% in December, were responsible for the decline. Sales have been declining since June on lower gasoline prices. Other manufacturing shipments were up in December (Chart 2), notably machinery and chemical products. Though down slightly from November, food manufacturing was up a healthy 16.1% year-over-year. For 2014 as a whole, manufacturing rose 7.6% in 2014 to $79 billion. For product categories with over $1 billion in sales, only fabricated metals saw annual declines.

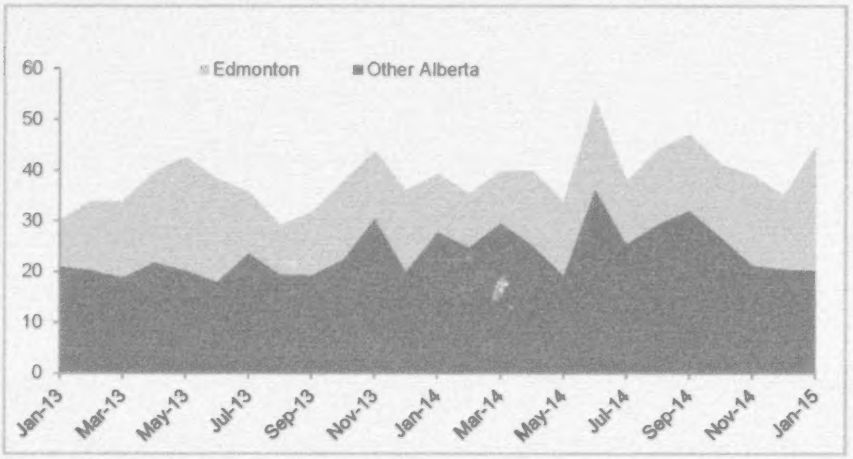
New Motor Vehicle Sales

A good end to a good year

Alberta finished 2014 strong, with 20,429 new motor vehicles sold in December, an increase of 6.1% y/y. Light truck sales, which include SUVs and minivans, were up 7.4% y/y, while passenger car sales were weaker at 0.5% y/y. Light trucks carried new motor vehicle sales throughout 2014, with annual growth of 8.3%. Car sales in 2014 were lower than in 2013.

Chart 1: Housing starts remained subdued outside of Edmonton

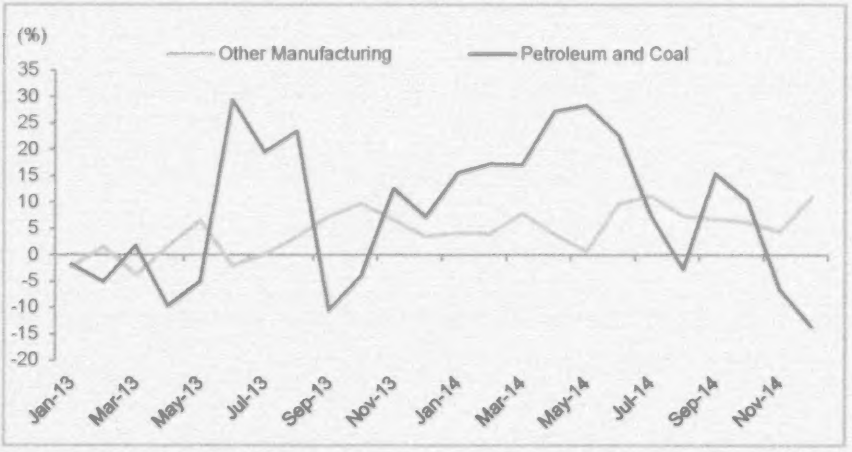
Alberta housing starts (annualized)



Source: Statistics Canada

Chart 2: Petroleum and coal pull down manufacturing shipments

Year-over-year change in Alberta manufacturing sales



Source: Statistics Canada

National new motor vehicle sales increased by 17.1% y/y, both passenger cars and trucks experienced double digit growth. Growth in almost all provinces was in double-digits. In total for 2014, new motor vehicle sales in Canada grew by 6.3%.

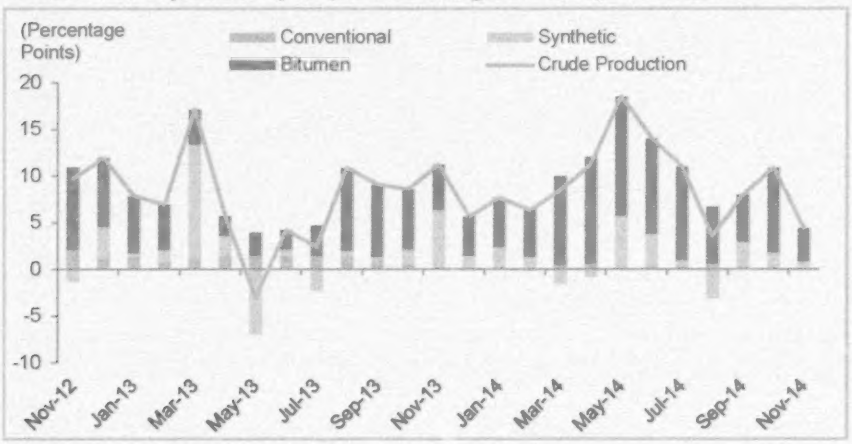
Oil and Gas Production

Volumes higher in 2014

Oil production in Alberta averaged 2.9 million barrels per day in November, an increase of 4.4% from 2013. Through eleven months of 2014, oil production in the province was 9.3% higher than the same period of 2013. The increase was mostly due to increased bitumen production (Chart 3), which was up 20% year-to-date. Exports were up 8.0% year-over-year and 11.0% year-to-date. Three-quarters of Alberta production is exported to the US. Natural gas production was up 5.2%, though exports were unchanged from a year ago. Gas production is on pace for the first annual production increase in five years.

Chart 3: Bitumen production boosts oil output

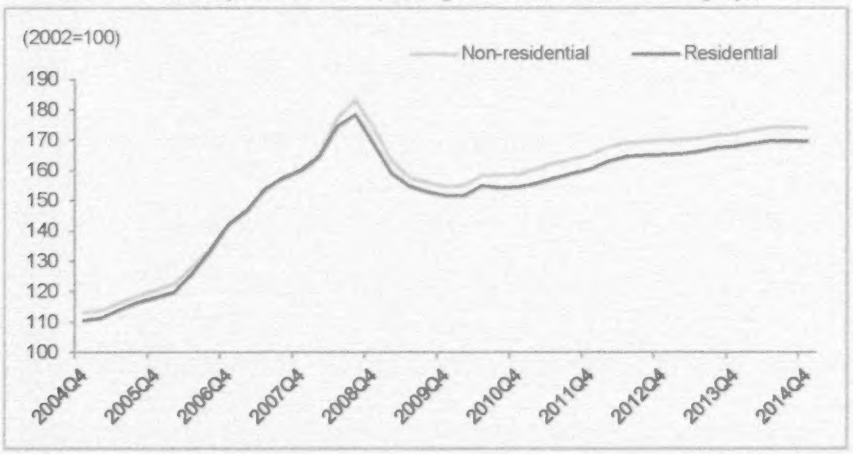
Contribution to year-over-year percent change in crude production



Source: Statistics Canada

Chart 4: Construction costs remain below the peak in 2008

Alberta construction price indexes (average of Edmonton and Calgary)



Source: Statistics Canada

Construction Price Indexes

Construction costs stay contained

Alberta construction cost inflation continued to slow, with year-over-year growth in both residential and non-residential construction costs drifting lower in the fourth quarter. Non-residential construction costs were up a mere 1.1% from the fourth quarter of 2013, and residential costs were 1.0% higher, both well below consumer price inflation. Construction costs in the province are still lower than they were at the peak in 2008 (Chart 4). Of the seven Canadian cities included in the survey, Calgary had the slowest increase in non-residential construction costs at 0.7%, compared with 1.5% in Edmonton, which has outpaced Calgary throughout 2014.

US Retail Sales

Sales sputter in January

US retail sales fell for a second-straight month in January, down 0.8%. The two-month decline was the largest since 2009. Gas stations saw the biggest decline in sales, down 9.3% on account of falling gasoline prices. Gas station sales were down 23.5% year-over-year. Excluding gasoline, sales were up 6.6% y/y and flat in January. Other retailers that experienced declining sales in January included sporting goods, books and music, clothing apparel, furniture stores and motor vehicle and parts. Despite dipping in February, consumer confidence remains around 7-year highs.

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Please see the *Alberta Economy- Indicators at a Glance* for a snapshot of Alberta indicators.